TRANS MOUNTAIN PIPE LINE COMPANY LTD.
ANNUAL REPORT 1981

DIRECTORS

K.P. BENSON
President & Chief Executive Officer and Director,
B.C. Forest Products Limited

L.P. BLASER
President and Chairman, Gulf Canada Products Company and Director of Gulf Canada Limited
(Retired April 15, 1981)

H.E. BOND
President, ARCO Transportation Company
(Elected November 4, 1981)

R.L. BRIDGES
Partner, Thelen, Marrin, Johnson & Bridges

R.T. BROWN
President, Gulf Canada Products Company
(Elected April 15, 1981)

K.L. HALL
President & Chief Executive Officer,
Trans Mountain Pipe Line Company Ltd.

* C.B. MACDONALD
President and Managing Director,
Chevron Canada Limited

* A.M. McGAVIN
Chairman of the Board, McGavin Foods Limited

J.S. MORRISON
Senior Vice President,
Atlantic Richfield Company
(Resigned November 4, 1981)

* A.G. SEAGER
Vice President - Oil Products,
Shell Canada Limited

W.A. WEST
Vice President and General Manager Logistics,
Imperial Oil Limited

*Member of Audit Committee

OFFICERS

K.L. HALL, President & Chief Executive Officer
E.J. LOCKWOOD, Vice President-Operations
A.A. GOULSON, Vice President-Treasurer
G.A. IRVING, Secretary
G.F. REEKS, Comptroller and Assistant Treasurer
F.W. ADAM, Assistant Secretary
J.G. TORRANCE, Q.C., Assistant Secretary

HEAD OFFICE

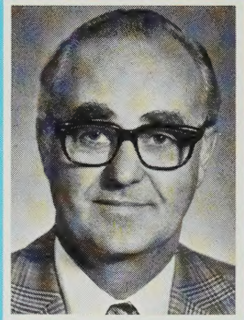
Suite 800 — 601 West Broadway, Vancouver,
British Columbia, Canada V5Z 4C5

TRANSFER AGENT AND REGISTRAR

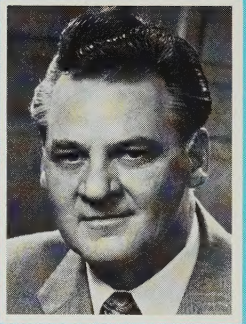
National Trust Company, Limited
Vancouver, Calgary, Edmonton,
Winnipeg, Toronto and Montreal

AUDITORS

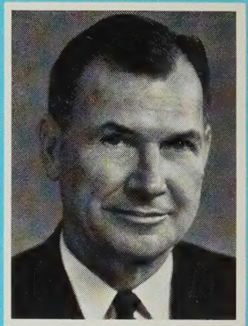
Price Waterhouse & Co.
Vancouver, British Columbia, Canada



K.L. HALL
President & C.E.O.

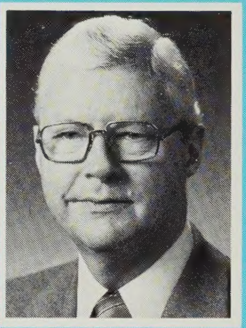


K.P. BENSON

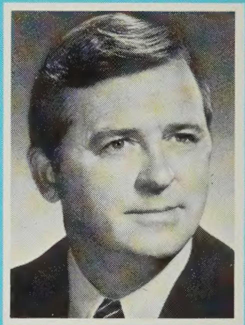


R.L. BRIDGES

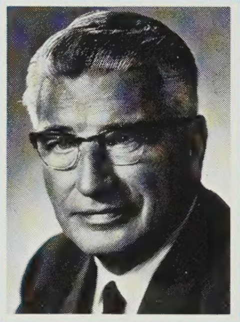
H.E. BOND



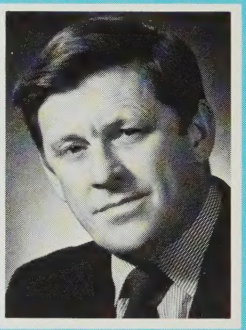
R.T. BROWN



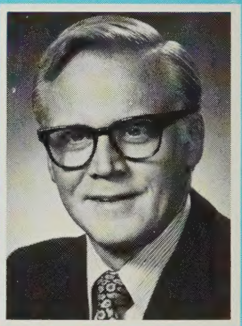
C.B. MACDONALD



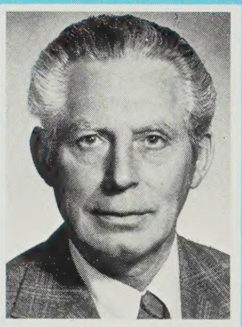
A.M. McGAVIN



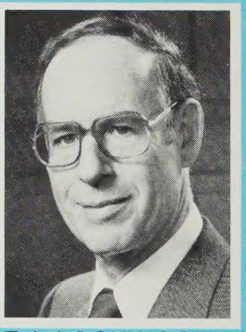
A.G. SEAGER



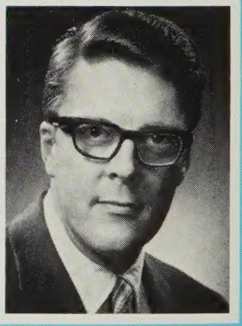
W.A. WEST



A.A. GOULSON
Vice President-
Treasurer



E.J. LOCKWOOD
Vice President-
Operations



G.A. IRVING
Secretary

THE COVER

This picture, entitled "The View From The Top" was taken from the top floor office of the Company. It shows the downtown core of Vancouver, with False Creek in the forefront and the North Shore mountains reaching for the sky in the background.

THIRTY FIRST ANNUAL REPORT TRANS MOUNTAIN PIPE LINE COMPANY LTD.

The Company owns and operates a pipe line system for the transportation of crude oil from Edmonton and Edson in Alberta and from Kamloops in British Columbia to its tank farm and marine terminal in Burnaby, B.C., together with a spur line from Sumas, B.C. to the International Boundary. At the International Boundary the Company's pipeline joins that of its wholly-owned subsidiary, Trans Mountain Oil Pipe Line Corporation, which owns and operates the system in the State of Washington. The Company also operates a facility on Burrard Inlet for receiving, refrigerating and loading tankers with Canadian propane export, and through its B.C. subsidiary company, Trans Mountain Enterprises of British Columbia Limited, a pipeline for the transportation of jet fuels from refineries in the Vancouver area to the Vancouver International Airport. Trans Mountain is a company authorized by Federal Statute to acquire rights-of-way and operate pipe lines over lands and facilities of individuals, corporate bodies and government authorities. As a carrier of petroleum from areas of production to refining centres and marine trans-shipment facilities, it provides a service and a transportation system vital to the Canadian economy and security. It also has the responsibility of conducting its business affairs in relation to landowners, government authorities, shippers, suppliers, shareholders and the general public in such a way as to satisfy the highest standards of ethical behaviour.

ANNUAL MEETING OF SHAREHOLDERS
April 21, 1982 — 10:00 A.M.
Social Suite — Hotel Vancouver
Vancouver, British Columbia

REPORT TO THE SHAREHOLDERS

DELIVERY VOLUMES

Average deliveries of petroleum in 1981 of 26,157 cubic metres per day were less than the 27,497 cubic metres per day delivered in 1980 and somewhat more than the 26,000 average estimated. The decrease in consumption of petroleum products in British Columbia can be linked to a combination of higher fuel prices and decreased industrial activity. The forest industry shutdown in late summer, in particular, caused a sharp decline in petroleum product consumption in the third quarter of 1981.

Petroleum deliveries for 1982 are forecast to average 25,300 cubic metres per day. This reduction is due in large part to a lengthy shutdown for scheduled maintenance at one large refinery. This volume includes an estimate of continuing exchange volumes to Washington State. No crude oil tankers were loaded in 1981 and it is not possible to predict whether any such shipments will be requested in the future. In past years the ability to load crude oil over Trans Mountain's Westridge dock for refineries in eastern Canada has been of significant national importance in times of emergency.

The volume of propane export loadings for Japan was about the same as originally estimated and pipeline deliveries of jet fuel to Vancouver International Airport were moderately lower than forecast. The propane export contract has been renewed for a further 5 year period commencing January 1, 1982.

OPERATIONS

During the year the pipeline system operated well and all deliveries were completed on schedule. Coastal sections of the pipeline were exposed to heavy rainfalls in November and December and some flooding resulted. Erosion control systems installed in earlier years stood up well and no significant damage occurred to the pipeline or access roads and bridges.

The original pumping stations in the system have now been operating for more than 28 years. The diesel engines driving the pumps have not been manufactured for more than 10 years and new spare parts are no longer available. Main engine units no longer required for the reduced throughput volumes of recent years were retained, and effective maintenance repair work has been economically accomplished through the use of spare parts from these units to supplement the parts inventory that had been provided. However some rehabilitation of the system will be necessary to ensure continued reliable and efficient service. Accordingly, a program has been developed aimed at upgrading those stations required for the throughput forecast over the next 15 years. Diesel engine drivers in the three primary stations will be replaced with modern electric motors, some piping changes will also be necessary, and it is planned to replace much of the instrumentation control and supervisory systems.

The proposed rehabilitation would involve a capital expenditure of some $9 million over two years. It is planned that these expenditures would be totally debt-financed over at least ten years. This would bring the capital structure of the Company closer to that regarded by the National Energy Board as efficient for rate-setting purposes. Subject to approval of the National Energy Board it is planned that this program will be initiated in late 1982.

FINANCIAL RESULTS

During the year the Trans Mountain proposal to construct and operate a west to east crude oil delivery system to serve the needs of the northern tier states of the United States was indefinitely postponed. As a result, previously deferred project development costs totalling $5,274,000 have been charged against 1981 earnings. The net amount of $3,578,000 after provision for related income tax reductions, is reflected as an extraordinary item in the Consolidated Statement of Income for the year. Consolidated earnings for 1981, before this extraordinary item, were $4,853,000 or 64¢ per share after provision for income taxes of $5,351,000. Consolidated earnings after providing for the extraordinary item were $1,275,000 or 17¢ per share.

The 1981 gross income increased marginally to $38,007,000 despite lower throughputs, mostly as a result of a slight improvement in operating revenue due to an 8½% increase in tariff rates which became effective at the beginning of the year. Income from investments of $2,263,000 was approximately equal to that of the previous year, with less funds available for investment being offset by higher interest rates.

Operating expenses of $15,528,000 increased by 22% over last year. Taxes, other than income taxes, totalling $6,457,000 reflected an increase of $2,184,000 or 51% over 1980, due largely to an unprecedented increase in assessed values of the pipeline in the Province of British Columbia. A further increase of 38.8% is estimated for 1982 property taxes for a total two-year increase of 110%. Depreciation and amortization provisions of $5,818,000 continue to include the special amortization of certain assets prescribed for the years 1978 through 1982 by the National Energy Board. The Company again paid dividends in the year totalling $1.20 per share which exceeded the 1981 earnings after provision for the extraordinary write-off of project development costs by $1.03 per share. As a result the Company's retained earnings were reduced by approximately $7,823,000.

N.E.B. RATE REGULATION

In December of 1980 the National Energy Board awarded an approximate increase of 8½% in tariff rates which became effective January 1, 1981. This decision arose from an application for new tariff rates filed by Trans Mountain in July 1980, and a public hearing concluded on November 7, 1980. In 1981, actual operating expenses exceeded the estimates incorporated in the rate decision by approximately 6%.

We now estimate that operating expenses in 1982 will rise a further 27%. This is due largely to a projected general inflation factor of 12.5%, a further overall increase in property taxes of 38% and an increase in fuel and power unit costs of some 20%. Accordingly, the Company has filed an application for an increase in tariff rates. The procedure outlined by the N.E.B. for this class of application does not require a public hearing. The proposed application for the pipeline rehabilitation program, if approved, will impact on rate base, depreciation and tariff rates, and may therefore require a public hearing at a later date.

In February of 1981 the N.E.B. in a letter to Trans Mountain expressed concern over the problem of "the vanishing rate base". The Board noted that it "would be willing to consider proposals for alternative methods either in a generic hearing or in individual rate cases at some appropriate time in the future. However, it considers that the initiative for holding

such a hearing and in undertaking the required studies should come from the industry".

Taking up this challenge the Pipeline Division of the Canadian Petroleum Association undertook a series of studies to evaluate liquids pipeline regulation in Canada. An indepth study was made of the present rate base method of arriving at allowable returns, the weaknesses described and alternative methods were discussed. In other reports it was shown that liquid pipelines are the most stringently regulated segment of the transportation industry in Canada and a case was made for consideration of economic deregulation. When you consider that it now costs 81 times as much to mail a letter from Edmonton to Vancouver as it does to ship one litre of crude oil over the same distance, one has to wonder how much the government can afford to spend on regulating such a minute cost of transportation in the stated interest of protecting the consumer. The reports are now in the hands of the Canadian Petroleum Association and it is planned to forward them to the National Energy Board by March 1, 1982, along with a request for a generic hearing into the matter.

OIL PORT AND PIPELINE PROPOSAL

At the beginning of 1981 the Trans Mountain proposal to construct a west to east pipeline system from a marine terminal in Washington State to Edmonton, Alberta, was still before the regulatory bodies. In May of 1981, the N.E.B. handed down a decision indicating that it was prepared to grant a Certificate of Public Convenience and Necessity for construction and operation of the pipeline in Canada for which certification was sought, subject to approval of the Governor in Council. The Certificate would also be subject to certain terms and conditions, all of which were quite acceptable to Trans Mountain.

The one hearing then remaining on this project was that before the Washington State Energy Facility Site Evaluation Council (EFSEC). On July 7, 1981, Trans Mountain announced that it had requested an indefinite postponement of this hearing. The dramatic decrease in consumption of crude oil in the United States (18% in three years) had altered considerably the economic environment for a new pipeline system. Refinery closures in the north central United States, spare capacity developing in pipelines from the U.S. Gulf Coast and the announcement of the construction of a pipeline across Panama all contributed to the Trans Mountain decision. The Company is of the opinion that under today's uncertain business conditions a major new pipeline could not be financed.

The Washington State Council granted the request on July 27, 1981, subject to the Company reporting back within one year on the then current status of the project. The Company is now of the opinion that the project could not reasonably be revived in less than 3 to 5 years time. As indicated elsewhere this is the reason behind the decision to charge against 1981 earnings the previously deferred costs of developing this project.

OTHER INVESTMENT OPPORTUNITIES

In November, 1981, Trans Mountain received an offer by Carter Energy Ltd., to purchase 2.4 million treasury shares at a price of $11 per share. The offer was conditional upon Trans Mountain agreeing to commit $50 million toward natural gas exploration in that portion of the Elmsworth gas field in northeastern British Columbia controlled by Canadian Hunter Exploration Ltd.

Trans Mountain, a B.C. Company, continues to be interested in development of major B.C. energy projects. Participation in the exploration for oil and gas is not outside this area of interest. However a single investment of this magnitude, with the attendant risks both in locating and marketing additional natural gas reserves, was not considered to be in the best interests of the Company or its shareholders at this time.

In late 1981 studies were commissioned which might lead to other investment opportunities. Investigation is underway into the economics of expanding the Westridge facility to include the bulk handling of methanol. In addition, the Company was requested by the government of Alberta, and private companies interested in methanol and coal production, to update our studies on coal-slurry pipelines to evaluate the feasibility of transporting methanol/coal slurry from Alberta to the west coast of British Columbia.

HEAD OFFICE RELOCATION

The relocation of the head office into new premises at 601 West Broadway in Vancouver was completed in October. The move went very smoothly with operations being suspended Friday at noon at the previous location and re-opening with business as usual at 8:00 am Monday in the new location. The relocation has given the Company the opportunity to expand on its application of data process systems and to make badly needed improvements to the management support systems so vital to today's complex business environment. The increasing role of regulatory agencies and other governmental bodies has greatly increased the work load on legal and accounting departments in recording and supplying information. Improvements have also been made in the Company's ability to examine new projects for potential development.

GENERAL

During the year two new Directors were elected to the Company's Board. In April 1981, Mr. R. T. Brown, President of Gulf Canada Products Company, was elected a director replacing Mr. L. P. Blaser, now retired from Gulf Canada. In November 1981, Mr. H. E. Bond, President of ARCO Transportation Company, was elected a director replacing Mr. J. S. Morrison of that same company. The management of the Company expresses its appreciation for the valuable contribution made by both Mr. Blaser and Mr. Morrison during the period they served on the Board.

Your management is pleased also with the continuing high calibre of employees that have been recruited. Because of the age of the Company we are still going through a period of heavy retirements. The new employees are fitting in well and, along with more senior people, are making an important contribution to the safe and efficient operation of the pipeline systems. Sincere appreciation is expressed to all employees for their continued valuable service.

K. L. Hall

K.L. Hall
President and
Chief Executive Officer

A TALE OF TWO CITIES

EDMONTON, ALBERTA — DECEMBER, 1981

TRANS MOUNTAIN EDMONTON TERMINAL — DECEMBER, 1981

Edmonton, the capital of Alberta, today boasts of having a third of the Province's population of 2,136,000.

Since 1953 Trans Mountain has owned and operated a gathering terminal for crude petroleums in Edmonton. From here the oil is shipped by pipeline to the lower mainland of British Columbia and the State of Washington.

The city has excellent art galleries, opera, symphony and dance facilities, sporting and recreational activities along with excellent restaurants and cabaret entertainment.

Situated in the centre of the Province, on the banks of the North Saskatchewan river, it is truly a "Gateway to the North and West".

Alberta, itself, is a province with a strong spirit of free enterprise, with lots of space and low taxes. They've got oil, the Alberta Advantage.

VANCOUVER, BRITISH COLUMBIA — DECEMBER, 1981

TRANS MOUNTAIN BURNABY TERMINAL — DECEMBER, 1981

Greater Vancouver is the third largest city in Canada. Its total population of 1.13 million is approximately 40% of the British Columbia total.

The 200 acre western terminal of the Trans Mountain pipe line is located on Burnaby Mountain. From its cluster of working tanks it supplies crude to local refineries and the Company's marine loading facility at Westridge on Burrard Inlet. The terminal's elevated location permits a gravity feed of the crude to each destination.

Vancouver presents a beautiful natural setting situated at the mouth of the famous Fraser river with breathtaking mountains as a back-drop. Where else, inside of half an hour, from downtown, could you, on any given day, go fishing for salmon in the salt chuck, skiing on the mountain slopes, or play a round of golf?

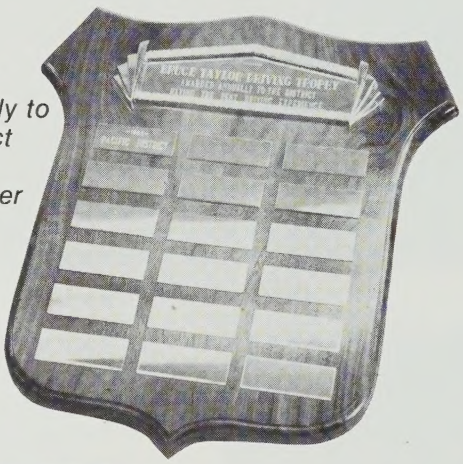
A metropolis par excellence, Vancouver is truly Canada's "Gateway to the Pacific".

1981 THE PASSING SCENE

ERIC DAVIS SAFETY TROPHY. Awarded annually to the Trans Mountain District having the lowest personal injury experience. The 1981 winner was the Eastern Division.

"GOOD MORNING, TRANS MOUNTAIN". Although the location has changed, phone callers and visitors get the same cheery welcome from Receptionist Dora Davies, pictured here in the new Vancouver offices at 601 West Broadway.

BRUCE TAYLOR DRIVING TROPHY. Awarded annually to the Trans Mountain District having the best driving experience. The 1981 winner was the Western Division.



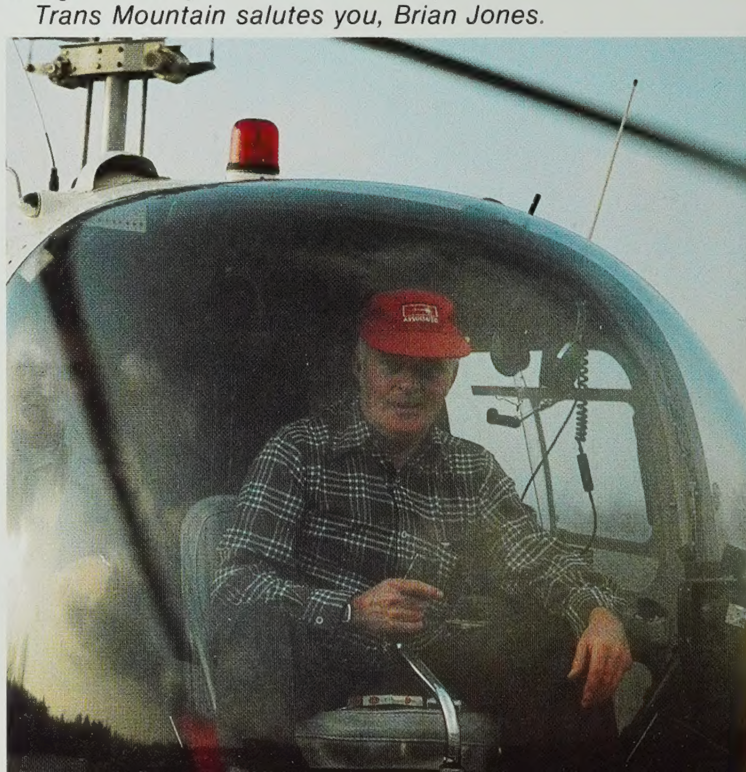
A SALUTE FOR SERVICE. On December 6th, helicopter pilot Brian Jones completed 26 years of pipeline patrol for Trans Mountain.

It was on this day in 1955 that Brian made his first trip across the line. Since that time he has averaged approximately 50 trips a year to cover an estimated 1,800,000 kilometres which, at a speed of 125 kilometres per hour would be 550 hours of flying time per year.

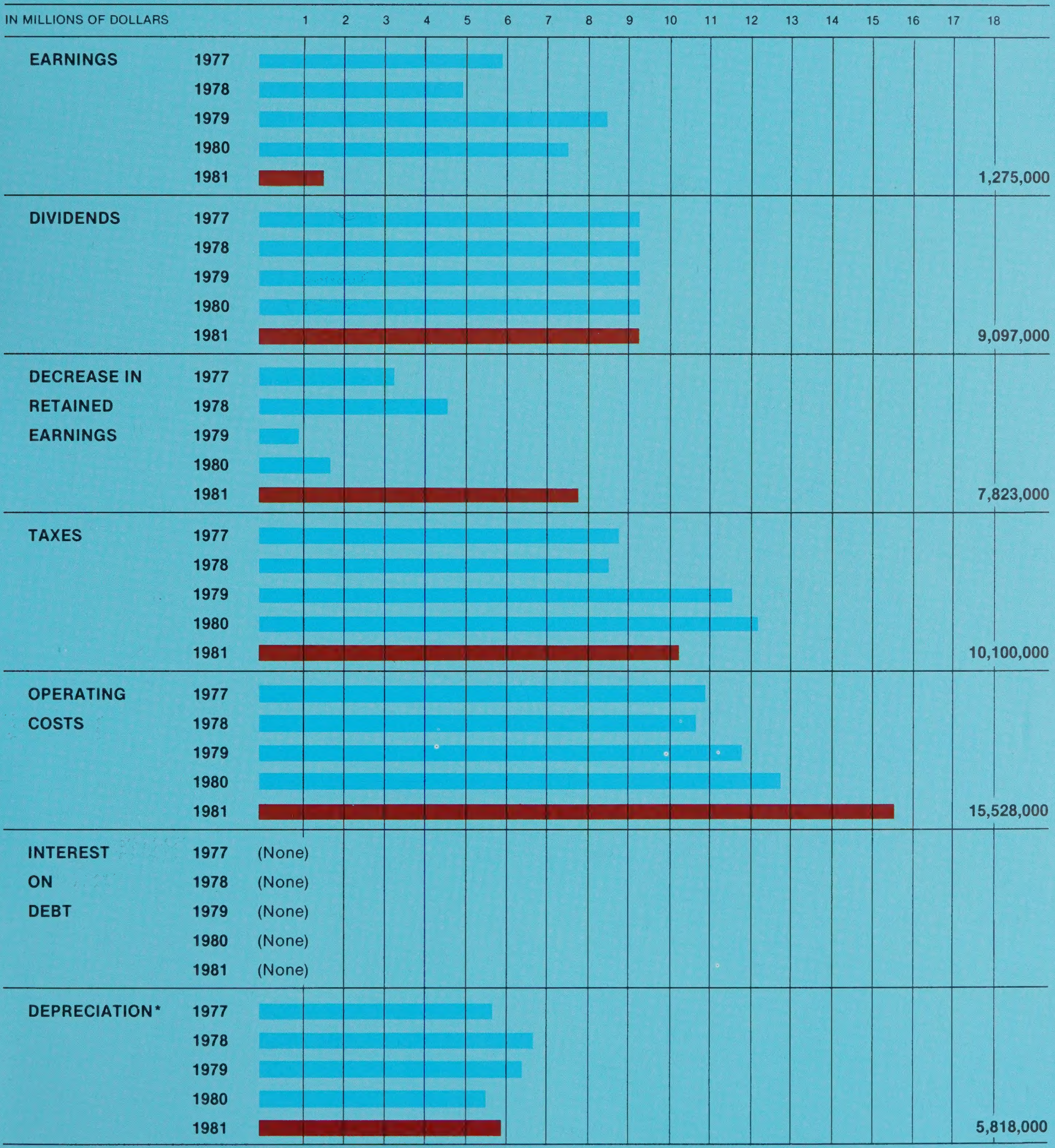
In total, that adds up to 14,300 hours of pipeline patrol. It has meant being on call seven days a week, flying in some conditions that only Mother Nature could prescribe — AND doing it for 26 years without mishap.

Trans Mountain salutes you, Brian Jones.

T. M. SHAREHOLDER? There's a friendly little four-legged fellow who appears regularly at mealtime in the pump station at Jasper. Although he doesn't hold any shares in the Company, he daily receives dividends in the form of tasty goodies from the pipeline staff.



FIVE YEAR COMPARISON



*(INCLUDES ACCELERATED AMORTIZATION IN 1978, 1979, 1980 AND 1981 ON ASSETS SPECIALLY CLASSIFIED AS NOT FULLY IN USE)

OIL MOVEMENTS

TOTAL DELIVERIES	*1981*	*1980*	*1979*
Cubic metres per day (including propane and jet fuel)	28,835.4	30,330.6	30,345.4

DELIVERIES BY DESTINATIONS	*1981*		*1980*		*1979*	
	Cu. metres per day	%	Cu. metres per day	%	Cu. metres per day	%
British Columbia refineries	22,785.9	79.0	22,529.0	74.3	22,450.8	74.0
Washington refineries	3,371.1	11.7	3,660.5	12.1	5,043.0	16.6
Westridge tankers (petroleum)	—	—	1,307.2	4.3	152.5	.5
Westridge tankers (propane)	1,169.6	4.1	1,279.1	4.2	1,216.1	4.0
Vancouver Airport (jet fuel)	1,508.8	5.2	1,554.8	5.1	1,483.0	4.9
		100.0		100.0		100.0

Natural gas liquids, in the form of condensate and butane, represented approximately 5.2% of the total volume transported. In 1980 these accounted for about 4.4% of the volume.

DELIVERIES BY CALENDAR QUARTERS	*Cubic Metres Per Day*		
	1981	*1980*	*1979*
Petroleum			
First Quarter	28,148.5	27,897.3	26,063.2
Second Quarter	25,631.1	25,783.5	26,590.0
Third Quarter	25,379.8	30,201.3	28,147.5
Fourth Quarter	25,506.1	26,090.4	29,738.7
Propane			
First Quarter	948.5	1,410.2	1,425.0
Second Quarter	939.5	917.8	938.0
Third Quarter	1,391.1	1,391.6	1,571 6
Fourth Quarter	1,392.0	1,394.3	931.5
Jet Fuel			
First Quarter	1,459.7	1,420.6	1,295.1
Second Quarter	1,527.3	1,610.0	1,524.2
Third Quarter	1,671.9	1,786.1	1,751.5
Fourth Quarter	1,375.4	1,401.8	1,357.7

Total deliveries for the first quarter of 1982 are expected to average 28,000 cubic metres per day.

SUMMARY OF OIL RECEIVED	*Cubic Metres Per Day*		
	1981	*1980*	*1979*
Petroleum			
Edmonton	22,285.2	23,521.6	23,147.7
Edson	1,281.5	1,236.4	1,386.3
Kamloops	2,728.8	2,807.4	2,961.3
	26,295.5	27,565.4	27,495.3
Propane			
Westridge	1,183.3	1,207.3	1,244.0
Jet Fuel			
Vancouver refineries	1,508.6	1,556.3	1,482.4

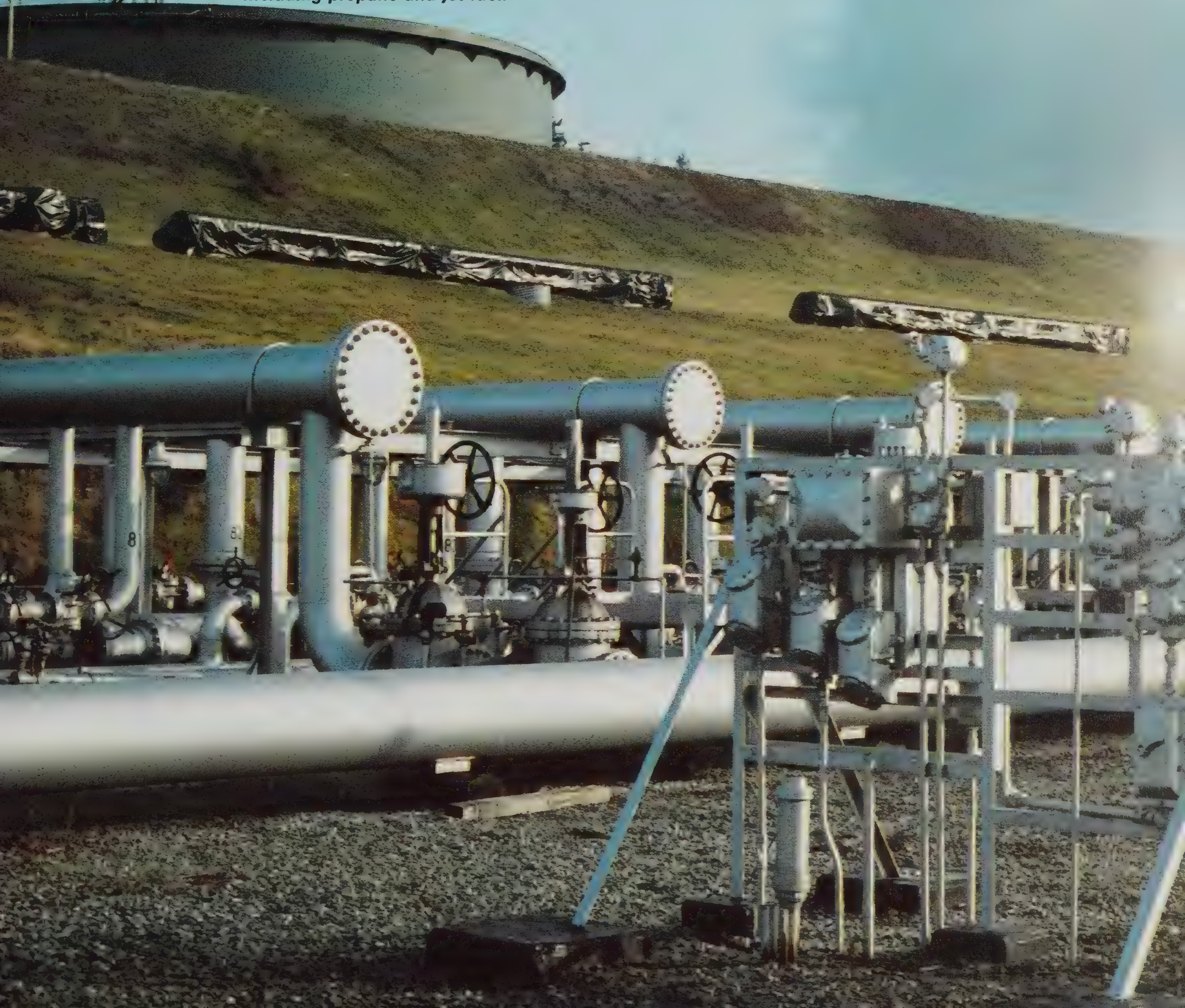
STATISTICS FOR COMPARATIVE PURPOSES	*1981*	*1980*	*1979*
Cubic metre kilometres (millions)	9,949	10,510	10,554
Average length of haul (kilometres)	1,042.1	1,044.3	1,045.9

FINANCIAL STATEMENTS

1981 — The Year In Brief

	1981	1980	Increase (Decrease)
Deliveries (cubic metres per day)*	28,835.4	30,330.6	(4.93) %
Income	$ 38,006,898	$ 37,755,997	.66 %
Expense	27,803,163	22,410,877	24.06 %
Earnings (after income taxes but before extraordinary item - project development costs, net)	4,852,735	7,517,120	(35.44) %
Earnings per share	0.64	0.99	
Extraordinary item (project development costs, net)	3,578,296		
Per share	(0.47)		
Net earnings	1,274,439		
Dividends per share	1.20	1.20	
Capital expenditures	2,024,376	491,370	
Fixed assets at cost	167,560,524	165,616,109	

**Including propane and jet fuel.*



CONSOLIDATED BALANCE SHEET

Trans Mountain Pipe Line Company Ltd. AND WHOLLY-OWNED SUBSIDIARY COMPANIES

ASSETS	December 31	
	1981	1980
Current assets:		
Cash	$ 298,292	$ 544,427
Short-term bank deposits	9,645,900	12,703,000
Commercial notes, at cost plus amortized discount	1,238,423	1,416,046
Accounts receivable	3,767,095	3,001,349
Income taxes recoverable	364,475	249,327
Inventories —		
Supplies	1,636,910	1,715,278
Oil	2,057,549	1,082,796
Prepaid expenses	161,825	548,113
	19,170,469	21,260,336
Other assets and deferred charges:		
Deposits, mortgages and deferred charges	997,180	1,020,349
Marketable securities, at cost (market value — $1,780,090; 1980 — $2,450,232)	2,230,472	2,930,472
Project development costs (Note 3)	—	4,560,329
	3,227,652	8,511,150
Fixed assets (Note 2):		
Plant, at cost	167,560,524	165,616,109
Less: Accumulated depreciation and amortization	133,524,256	127,752,796
	34,036,268	37,863,313
	$ 56,434,389	$ 67,634,799

LIABILITIES	December 31	
	1981	1980
Current Liability:		
Accounts payable and accrued liabilities	$ 1,076,098	$ 2,081,234
Deferred income taxes	918,147	3,291,092
	1,994,245	5,372,326
SHAREHOLDERS' EQUITY		
Capital stock:		
Issued and outstanding — 7,580,640 common shares without nominal or par value	15,785,767	15,785,767
Retained earnings	38,654,377	46,476,706
	54,440,144	62,262,473
	$ 56,434,389	$ 67,634,799

Approved by the Board of Directors:

K. L. Hall Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
INCOME	**1981**	**1980**
Income:		
Operating revenue	$34,960,244	$34,631,095
Income from investments	2,262,794	2,259,841
Gain on sale of land and buildings	—	280,829
Sundry income	785,014	546,602
Exchange gain (loss) on consolidation of U.S. subsidiary	(1,154)	37,630
	38,006,898	37,755,997
Charges:		
Operating expenses, other than those stated below	15,527,767	12,728,028
Taxes, other than income taxes	6,456,901	4,272,618
Depreciation and amortization	5,818,495	5,410,231
	27,803,163	22,410,877
Income before income taxes and extraordinary item	10,203,735	15,345,120
Provision for income taxes:		
Current	7,013,395	8,292,127
Deferred	(1,662,395)	(464,127)
	5,351,000	7,828,000
Income before extraordinary item	4,852,735	7,517,120
Extraordinary item:		
Write-off of project development costs, net of reductions of current and deferred income taxes totalling $1,695,958	3,578,296	—
Net income for the year	$ 1,274,439	$ 7,517,120
Net income per share before extraordinary item	$0.64	$0.99
Net income per share after extraordinary item	$0.17	$0.99
RETAINED EARNINGS		
Retained earnings at beginning of year	$46,476,706	$48,056,354
Net income for the year	1,274,439	7,517,120
	47,751,145	55,573,474
Dividends — $1.20 per share	9,096,768	9,096,768
Retained earnings at end of year	$38,654,377	$46,476,706

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1981	**1980**
Financial resources were provided by:		
Operations —		
Income before extraordinary item	$ 4,852,735	$ 7,517,120
Items not involving an outlay (inflow) of working capital —		
Depreciation and amortization	5,818,495	5,410,231
Deferred income taxes	(1,662,395)	(464,127)
Loss on sale of marketable securities	218,068	—
(Gain) on sale of land and buildings	—	(280,829)
	9,226,903	12,182,395
Reduction of current income taxes arising from extraordinary item	985,408	—
Proceeds from sale of marketable securities	481,932	—
Net proceeds on disposal of fixed assets	32,926	428,223
Decrease in deposits, mortgages and deferred charges	23,169	—
Redemption of marketable securities	—	56,026
	10,750,338	12,666,644
Financial resources were used for:		
Additions to fixed assets	2,024,376	491,370
Additions to project development costs	713,925	3,201,187
Increase in deposits, mortgages and deferred charges	—	429,538
Dividends paid	9,096,768	9,096,768
	11,835,069	13,218,863
Decrease in working capital	1,084,731	552,219
Working capital at beginning of year	19,179,102	19,731,321
Working capital at end of year	$18,094,371	$19,179,102

NOTES TO FINANCIAL STATEMENTS

December 31, 1981

1. ACCOUNTING POLICIES:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of Trans Mountain Pipe Line Company Ltd. and its wholly-owned Canadian subsidiaries, Trans Mountain Enterprises of British Columbia Limited, Trans Mountain Housing Limited and Alpac Construction & Surveys Limited and Trans Mountain Oil Pipe Line Corporation in the United States.

(b) Foreign currency translations —

The accounts of Trans Mountain Oil Pipe Line Corporation, the United States subsidiary company which owns and operates the pipe line in the State of Washington, and United States dollar balances of Trans Mountain Pipe Line Company Ltd. have been expressed in Canadian dollars on the following bases —

Current assets and liabilities, at the rate of exchange on December 31;

Fixed assets, project development costs and deferred income taxes, at historical rates of exchange;

Accumulated depreciation, on the basis of the equivalent Canadian dollar cost of the related fixed assets;

Income and expenses, except depreciation, at month-end rates of exchange.

(c) Inventories —

Supplies are valued at the lower of cost and replacement cost, cost being determined principally on a moving-average basis. Crude oil inventories are valued at net realizable value.

(d) Depreciation and amortization of fixed assets —

Depreciation is generally provided by the straight-line method on the basis of service life according to class of assets at rates varying from 1.4% to 20%. The average rate on depreciable assets was 2.31% in 1981 and 2.46% in 1980. Certain assets, on the direction of The National Energy Board, have been designated as not fully in use and are being amortized over a period of five years ending in 1982.

2. FIXED ASSETS:

Fixed assets comprise —

	1981			1980
	Cost	Accumulated depreciation and/or amortization	Net book value	Net book value
Canada —				
Crude oil pipeline system in service	$131,760,605	$107,049,158	$ 24,711,447	$ 26,164,716
Incomplete construction	332,224	—	332,224	27,357
Assets specially classified	19,695,970	17,727,502	1,968,468	4,112,761
Propane handling and common dock facilities	5,591,964	3,623,541	1,968,423	2,900,880
Jet fuel pipeline system	2,357,096	884,582	1,472,514	1,546,463
Other property not used in pipe-line service	680,285	43,031	637,254	—
U.S.A. —				
Crude oil pipeline system	7,142,380	4,196,442	2,945,938	3,111,136
	$167,560,524	$133,524,256	$ 34,036,268	$ 37,863,313

At the present time crude oil deliveries to refineries in the State of Washington have been reduced to only modest quantities arranged through exchange agreements. This has resulted in uncertainty as to the ability of Trans Mountain Oil Pipe Line Corporation, the wholly-owned United States subsidiary which serves this area, to recover in full the undepreciated cost of its facilities, which at December 31, 1981 aggregated $2,945,938 ($2,985,932 U.S.). Recovery of this investment is dependent on the volume of future throughput or alternative use of the facilities.

3. PROJECT DEVELOPMENT COSTS:

During the year the Company requested that the National Energy Board of Canada, the Washington State Energy Facility Site Evaluation Council and other permitting agencies concerned, indefinitely postpone further consideration and action on the Company's proposal to construct an oil port in Washington State and a west-to-east pipe line to Edmonton, Alberta for the receipt of crude oil for ultimate delivery to the northern tier states of the United States of America. The Company concluded that because of the unprecedented major decline in the demand for petroleum products in the United States, the project could not be financed in the foreseeable future.

In view of the above developments, the Company has charged the deferred costs of the proposal against consolidated earnings in the current fiscal year. To December 31, 1981, such costs amounted to $5,274,254.

4. RETIREMENT PLAN:

The Company has a retirement plan covering substantially all employees. An actuarial report on the plan as at December 31, 1980 indicated that additional funding of $728,899 in respect of past service benefits was required. Based on actuarial advice, $330,000 of this obligation was provided for and funded in 1981 and the remainder is being funded and charged to operations over the next two years.

5. REMUNERATION OF DIRECTORS AND OFFICERS:

The remuneration received by directors and officers of the Company (of which $11,500 was received by directors from a subsidiary company) is as follows —

Directors		Officers		Officers who were
Number	Amount	Number	Amount	also directors
11	$48,500	5	$422,532	1

AUDITORS' REPORT

To the Shareholders of Trans Mountain Pipe Line Company Ltd.:

We have examined the consolidated balance sheet of Trans Mountain Pipe Line Company Ltd. and wholly-owned subsidiary companies as at December 31, 1981 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 15, 1982
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants

ON THE PATH OF THE PIPELINE
For the past 28 years our Company has scheduled helicopter patrols of the right-of-way. Our "eye in the sky" helicopter patrols the entire length of the pipeline every week including into the State of Washington.
A two-way radio which fits into the Company's communication system keeps the pilot in direct contact with every location at all times.
With the ability to land almost anywhere the helicopter has proved to be invaluable, not only as a protective measure for the pipeline but also it has served our landowner friends in more than one emergency down through the years.

TEN YEAR SUMMARY

FINANCIAL (in thousands of dollars)

Revenue
Expense (including depreciation)
Project development costs, net
Income taxes
Net earnings
Net earnings per share
Dividends distributed
Percentage of net earnings paid
Dividends paid per share
Working capital
Capital additions to pipe line system
Investment in plant (original cost)
Investment in plant (less accumulated depreciation)
Long term debt — (after deducting payments due within one year)
Number of shares issued
Number of shareholders
Canadian
U.S.A.
U.K.
Other

OIL MOVEMENT STATISTICS (in thousands of cubic metres)

Receipts:
Petroleum
Alberta
British Columbia
Total
Jet Fuel
Propane
Alberta
British Columbia
Total
Deliveries:
Petroleum
British Columbia
Washington State
Tankers
Total
Jet Fuel
Propane
Tankers

1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
$ 38,007	37,756	37,591	30,641	31,042	37,683	44,901	52,042	53,231	52,978
$ 27,803	22,411	21,304	20,645	19,544	22,020	22,032	21,977	21,702	19,644
$ 3,578	—	—	—	—	—	—	—	—	—
$ 5,351	7,828	8,063	5,065	5,585	7,935	11,530	15,713	15,905	15,984
$ 1,275	7,517	8,224	4,931	5,912	7,728	11,339	14,352	15,624	14,321
$ 0.17	0.99	1.08	0.65	0.78	1.02	1.50	1.89	2.06	1.89
$ 9,097	9,097	9,097	9,097	9,097	9,097	9,476	9,476	9,476	9,476
713%	121%	111%	184%	154%	118%	84%	66%	61%	66%
$ 1.20	1.20	1.20	1.20	1.20	1.20	1.25	1.25	1.25	1.25
$ 18,094	19,179	19,731	17,195	17,230	15,782	14,247	10,486	4,205	1,424
$ 2,024	491	538	811	830	866	1,749	1,269	6,151	4,025
$ 167,560	165,616	165,474	165,896	165,438	164,944	164,363	162,965	162,216	156,323
$ 34,036	37,863	42,930	49,200	55,026	59,939	64,542	68,279	72,461	71,466
—	—	—	—	—	—	—	—	2,000	5,000
7,580,640	7,580,640	7,580,640	7,580,640	7,580,640	7,580,640	7,580,640	7,580,640	7,580,640	7,580,640
10,935	12,139	12,976	13,468	14,079	14,351	14,879	15,058	15,100	15,568
10,234	11,331	12,053	12,434	12,932	13,564	14,062	14,229	14,255	14,671
637	734	847	959	1,065	697	725	734	738	766
28	29	28	28	31	36	36	36	36	36
36	45	48	47	51	54	56	59	71	92

1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
8,602	9,061	8,955	7,308	7,669	11,674	16,152	19,208	19,748	19,621
996	1,028	1,081	942	1,024	1,097	1,245	1,875	2,359	2,648
9,598	10,089	10,036	8,250	8,693	12,771	17,397	21,083	22,107	22,269
551	570	541	447	423	420	430	354	322	257
377	395	410	393	462	484	442	476	478	498
55	47	44	47	26	1	4	1	—	12
432	442	454	440	488	485	446	477	478	510
8,317	8,246	8,194	7,204	7,194	7,008	6,708	6,728	6,696	6,069
1,230	1,340	1,841	987	1,491	5,799	10,400	11,704	14,913	16,080
—	478	56	—	—	—	225	2,583	535	—
9,547	10,064	10,091	8,191	8,685	12,807	17,333	21,015	22,144	22,149
551	569	541	447	423	420	430	354	321	256
427	468	444	428	481	495	461	464	464	550

LITHO'D IN CANADA